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SUBJECT: CHINESE OPEN DOOR ON DEVELOPMENT FINANCE...MAYBE

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(G) 05 BEIJING 16254

SUMMARY  
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11. (SBU) In a possible indication of greater openness to talking about development finance, officials from China's foreign aid bureaucracy told a visiting Treasury official that they look forward to more exchanges on the topic. Long reluctant to discuss foreign aid-related issues (see reftels), the Chinese officials appeared to welcome incorporating development finance into the Strategic Economic Dialogue (SED) in the future. Our interlocutors, as well as representatives of international aid organizations, said China's foreign aid bureaucracy remains uncoordinated and lacks a long-term development assistance strategy. Institutions such as the China Development Bank (CDB), however, are aggressively supporting Chinese commercial objectives overseas. END SUMMARY.

MOVING TOWARDS A DIALOGUE ON DEVELOPMENT FINANCE  
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12. (SBU) Kenneth Peel, Deputy Assistant Secretary of Treasury for International Development Finance and Debt, encouraged Chinese government officials to engage in a long-term constructive dialogue with the United States on development finance under the SED and heard views from the Beijing-based international donor community during his May 8-9, 2007, visit. Wang Shichun, Director General of the Ministry of Commerce (MOFCOM) Department of Aid to Foreign Countries said he would welcome an exchange of ideas on the issue. (Note: MOFCOM's Department of Aid to Foreign Countries has routinely refused Embassy requests for meetings for the past two years (reftels). The May 9 meeting, facilitated by the Ministry of Finance as part of the SED process, was the first time we have met Wang. End Note.)

CHINA'S AID INCREASING RAPIDLY

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¶3. (SBU) International observers agreed that China's aid overseas -- supported by commercial outreach -- is increasingly rapidly. Examples include:

--The China Development Bank (CDB) and China's Export-Import (EXIM) Bank have a combined larger investment in the Philippines than ADB and the World Bank put together;

--China's USD 610 million aid package to Cambodia is greater than the UK's aid program of USD 600 million;

China's aid is politically driven but also focused on resource acquisition, infrastructure, and export promotion, observers added.

PROVIDING ASSISTANCE WITHIN CHINA'S CAPACITY  
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¶4. (SBU) According to MOFCOM's Wang, China's foreign aid objective is to promote peaceful development and support the Millennium Development Goals (MDGs). Assistance should be tangible, including projects in infrastructure, education, and health and should teach skills rather than simply giving away money, he said. Wang said he just returned from Africa where China promised during last year's China-Africa Forum (FOCAC) to commit an additional USD 5 billion in aid by 2009. Wang, however, also reiterated that China remains a low-income country and will therefore provide aid only within its own capacity.

AID LACKS STRATEGY, BUSINESS MORE IMPORTANT  
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¶5. (SBU) China's foreign aid apparatus still lacks coordination within the bureaucracy, and MOFCOM has not yet developed a foreign aid strategy, international observers said. According to the Head of the UK's Department for International Development (DFID) in China, FOCAC exposed the weaknesses in China's development assistance bureaucracy, as government agencies were caught off-guard by the large-scale financial commitment made by President Hu Jintao during the Summit, and the Chinese Government is now struggling with how to deliver on that promise. Representatives from DFID and the Asian Development Bank (ADB) emphasized, however, that while China's foreign aid bureaucracy remains underdeveloped, the government continues to aggressively promote commerce overseas. China-Africa two-way trade has increased from USD 9 billion in 2001 to USD 56 billion last year, one observer said, and another pointed out that China EXIM and CDB both exercise considerable influence.

CDB REACHING OUT OVERSEAS  
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¶6. (SBU) Speaking for CDB, Wang Weidong, Deputy Director General of the CDB's International Finance Department, said most of CDB's loans support infrastructure and construction projects domestically, but in an effort to both mitigate risk and expand its cooperation with large Chinese companies (such as Sinopec and CITIC), CDB now also supports overseas projects, particularly in Latin America and Asia. Approximately 10 percent of CDB's total assets are invested overseas at roughly USD 30 billion.

¶7. (SBU) The delegation cleared this cable.

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